

1 BEFORE THE
2 ILLINOIS COMMERCE COMMISSION
3 ELECTRIC POLICY COMMITTEE MEETING

4 Chicago, Illinois

5 June 13th, 2002

6
7 Met pursuant to notice at 10:30 a.m.

8
9 BEFORE:

10
11 THE ILLINOIS COMMERCE COMMISSION

12 MR. RICHARD MATHIAS, CHAIRMAN
13 MS. RUTH KRETSCHMER, COMMISSIONER
14 MR. TERRY HARVILL, COMMISSIONER
15 MR. EDWARD HURLEY, COMMISSIONER

16 APPEARANCES:

17 MR. PHILLIP HARRIS and
18 MR. CRAIG GLAZER
19 PJM Interconnection

20 SULLIVAN REPORTING COMPANY, by
21 Barbara A. Perkovich, CSR
22

1 COMMISSIONER HARVILL: Good morning. This is a
2 special open meeting held pursuant to notice and the
3 is applicable statutes. Present today are
4 Commissioners Mathias, Kretschmer, Hurley and myself
5 Commissioner Harvill. Today's special open meeting
6 is convened as an electric policy meeting.

7 On May 29th Com Ed and Illinois Power
8 separately announced their intentions to join the
9 Pennsylvania, New Jersey and Maryland
10 Interconnection or PJM. In light of that
11 announcement and to better acquaint the Commission
12 with PJM, today we will hear from officials from PJM
13 who will integrate additional parties including Com
14 Ed and Illinois Power into the RTO.

15 Joining us today are Craig Glazer, vice
16 president of governmental policy for PJM and Phil
17 Harris, president and CEO of PJM Interconnection.
18 With that, I'm going to turn things over to
19 Mr. Glazer and Mr. Harris. If there are any
20 questions during the presentation politely interrupt
21 our presenters and hopefully we can have a vibrant
22 and robust discussion. With that I'm going to turn

1 things over to you, thank you.

2 MR. HARRIS: Thank you, Commissioner. Thank you
3 for the opportunity to be here today. What I want
4 to do first of all is share with you some of the
5 philosophy that founded PJM as we move in order into
6 the future and probably bring to you maybe a new way
7 of looking at some of the things that we've been
8 engaged with.

9 It really is a new century that we are involved
10 in. And we have discovered a lot in the things that
11 we are doing today. We actually started operating
12 markets five years ago and over five years we have
13 billions of dollars worth of buildings, we operate
14 eight different markets right now, we have over \$700
15 million of transmission under construction, we have
16 10,000 megawatts of generation that is actually
17 ground is broken and under construction. We have no
18 billing disputes, everybody has paid on time and it
19 kind of works.

20 So we have discovered a few things in that
21 process and I want to share that with you because
22 understanding these foundational principles are

1 important to how we would solve problems in the
2 future and issues and matters as Illinois companies
3 agree to come to PJM. And one of the big things I
4 want to leave with you is, information really is the
5 key to markets.

6 First of all, we have to go back to what this
7 is all about. I've been in this industry a long
8 time, I remember the discussion of PERPA days and
9 how to implement all those rules. And we had the
10 Power Plant and Natural Fuel Act where we couldn't
11 burn natural gas in power plants, and that was
12 repealed in 1987. And now in 1992 we had the Energy
13 Policy Act, and what it was all about as national
14 policy was to promote greater competition in bulk
15 power market.

16 Greater competition is bulk power markets. And
17 Congress effected that by amending Section 211 and
18 212 of the Federal Power Act and said FERC would
19 have broader authority to order utilities to provide
20 wholesale transmission service. These were later on
21 effectuated in Order 88 and Order 2000.

22 But I think the purpose of Order 2000 really

1 gets to the heart of what we are about, it is to
2 insure that customers have the benefit of
3 competitive price generation, and we can't lose
4 sight of that. The reason the law was passed in '92
5 as the law of the land and the policy of this nation
6 is so that customers could have the benefit of
7 competitive priced generation and we have have tried
8 different procedures and methods to insure that the
9 customers are the ones that are benefiting from
10 competitive price generation.

11 If we look at what we are dealing with as a
12 nation as we try to put this together, and it's
13 actually in North America, if you look at it
14 electrically, the eastern interconnection of North
15 America is the world's largest synchronized motor.
16 It's 6,000 megawatts of electricity travels at the
17 speed of light, it's really instantly available.
18 One sixty-fourth of a second power can got from New
19 Mexico to North Canada.

20 And there have been those that have been
21 arguing for years that the motor can be more
22 efficient, it can be more effective, it's a very

1 good analogy when you look at the automobile. Look
2 at the automobile and the way we have them in the
3 '70s before the price of gasoline started getting
4 high. With computers and other enhancements you
5 have extremely efficient automobiles today that know
6 the right air/gas mixture, they know the road
7 conditions and so forth, and the cars are
8 automatically adjusting and much more efficient.

9 And if you look at this as a single motor,
10 which it is, it's a remarkable thing we have here in
11 this synchronized motor. Yet if we look to how to
12 change that paradigm, you also have to look -- you
13 can't ignore you have multiple states, multiple
14 nations and Canadian provinces involved that have
15 something to do with this thing called electricity.
16 Electricity is a live line product, it touches every
17 single person's life. It's a bedrock of a modern
18 civilized economy.

19 So the policies, procedures and methods that
20 are effectuated with this thing called electricity,
21 as we try to make the motor, more the local policies
22 that are necessary that govern this product that

1 touches our lives.

2 And then finally we have local practices. We
3 have 100 years of history of things that work. You
4 know 100 years where largely they have worked and
5 companies have developed using their own invention
6 and creative rules, methods, procedures
7 regionalization, protocols, all of these things that
8 work, so electricity works.

9 So then what do we do? How do we change these
10 things if indeed the law of the land is we are going
11 to have competitive price generation for five years
12 from 1992 to 1997? A lot of debate, what happened
13 in California, we know what happened in New Zealand,
14 we know what happened in England. All these
15 different times everyone had a different theory of
16 how you could get competitive price generation.

17 You really have to deal with real markets, you
18 have to have a real market that allows generation to
19 compete. And real markets involve a number of
20 things which is ability to monitor, ability to get
21 information and so forth. The important thing is
22 that it has to be supported by real information.

1 And I'm going to come back to this point over and
2 over again.

3 If you look at the failures virtually around
4 the world, it almost always can get back to the root
5 cause that information wasn't available to those
6 that needed it when they needed it so they can make
7 either informed public policy or informed commercial
8 judgments about the policies that were formed at
9 that time. We are dealing with real information to
10 support real markets.

11 When our market started in 1997 we did two
12 things behind this that proved to be very good for
13 us. One is that we asked to begin a program in 1993
14 totally redefined our internal information
15 technology. We had a massive study, we totally
16 threw out everything that ran PJM and brought in a
17 whole new distributed data base system in order to
18 make this be robust and functional in this new
19 economy. In hindsight, that was one of the best
20 decisions we made was to be able to do that to have
21 the information that can make things deliver.

22 That initial database we had we looked at it

1 and staff, I remember, saying it was going to take 2
2 terabytes to operate a real time market. And I
3 thought what an awful number. I had never even
4 heard of that until they brought it up. But when we
5 got into it together, we actually operate with 7
6 terabytes to operate the retail market. And it's
7 that ability to take the information and put it in
8 the hands that's crucial for moving forward.

9 It's also a real time product. You can't
10 ignore the fact that electricity is the only thing
11 in the world that is produced the very instance
12 someone wants to consume it. It's either there or
13 it's not there. And if you do these things well and
14 you deal with real markets and real information and
15 real time, then you constantly have to focus on
16 earning the trust. It's about trust.

17 The trust of the public is essential. If the
18 public doesn't trust the mechanisms and processes
19 that are delivering electricity that they are using,
20 then you are going to have all sorts of social
21 disruption. You cannot have that. If the
22 businesses can't trust the processes and procedures

1 that you have, they are not going to make the
2 investment. You have to earn the trust in
3 everything you do as you move forward. And nothing
4 earns the trust like the test of use.

5 No matter what rhetoric you say, it's basically
6 what you do that counts, and earning the trust is
7 there. And you get the trust if you deal with real
8 markets, supported by real information and real
9 time.

10 I want to talk a little bit more about
11 information and keep going back to it. It's
12 interesting that the Nobel Prize winners last year
13 got the Nobel Prize on the problem of the lack of
14 information. The Accadian theory of economics is
15 fine, but if you don't have the information
16 available to make important commercial decisions,
17 and in order for the policy makers to engage and
18 have the information they need to appropriate the
19 appropriate policy then you are not going to have an
20 effective market and its markets don't work
21 effectively when you don't have the information.

22 So if you look at the electric industry, if you

1 look at what has been going on and you were to look
2 at it from a data point of view, in the past and
3 this is the big change to the future, under the past
4 we had silos of data. If you look at all the fuel
5 needs, you know the solar people had one thing, the
6 nuclear, the coal and so forth, they had a silo of
7 data.

8 And you had buckets of data that are scattered
9 around and generators had buckets of data that only
10 dealt with that particular power plant and maybe
11 some of the fuel that went into it. Transmission
12 you had some of the base data coming off your SCADA,
13 your control systems.

14 If you look at the regulation of that, most
15 regulators could get some information that was based
16 on a historical past year with some future
17 projections for known immeasurables, but you had no
18 real time data to really understand what was going
19 on. It took a long time between discovery and data
20 and having information. You had buckets of
21 information.

22 Same thing for the distribution level and then

1 ultimately the end user and then you had a payment
2 cycle that was scattered out. The epiphany now is
3 that every market we've designed has been designed
4 in one way, we've connected previously disconnected
5 buckets of data and turned them into information so
6 people can have them when they need it in order to
7 make the decision that they need to make at the time
8 they choose to make the decision.

9 This is what has made our markets work is
10 taking data, convert it to information and make sure
11 the information is there. Many of the problems seem
12 daunting at first cut and some of the problems seem
13 daunting when you turn around and you say this is
14 how we did it in the past. If you look to the
15 future and see the devices and the technology we
16 have in the future, then it becomes quite exciting
17 because we have capabilities today to turn data and
18 information to make markets work like we never have
19 been able to make them work before in our history.

20 And this history is a changing thing, you know.
21 All it takes to have a reliable supply is demand has
22 to be in balance at any point in time. The

1 difference for us is that that's a speed of light
2 balance at the point in time it has to be there.

3 We came from a past where there was the theory
4 that that in the past it was supply the demand at
5 the regulated price. And we figured that that isn't
6 quite right, and it may be right to have the
7 appropriate investment if you do it differently.
8 Unfortunately, there were some that say, well, the
9 real thing is you supply the demand at any price.
10 And we know it's good public policy, but that isn't
11 going to work particularly well with a thing called
12 electricity.

13 So we what really have to have is supply and
14 demand response to price with this thing called
15 electricity. One of things we've been looking at is
16 developing economic development programs to allow
17 the demand side of the equation to come into the
18 supply and demand balance. And we just implemented
19 this year a two and a half year pilot project, it
20 will be our third one, on how to get demand side
21 response to price.

22 The interesting thing about it is it still gets

1 back to the same issue, you can do these things, the
2 information is available, so the demand side can
3 truly respond to price. When we have supply and
4 demand response to price you have a much more
5 balanced equation and a much more healthy economy as
6 we move forward, and we need to move in these
7 particular directions in the future.

8 I talked about the data information and it
9 really is fascinating how all that begins to work.
10 Every utility has their own silos of data, whether
11 it's in this region, whether it's in a different
12 state, whatever. There are different buckets that
13 are there, and then there is transformation
14 processes that manage this data, and these stay the
15 same, they don't have to change. And what we found
16 out that is necessary is to transform that data,
17 transform the data to information in real time.
18 That's been the problem.

19 The way we operated for over 100 years was
20 because the technology only existed to allow us to
21 operate the way we did for 100 years now we have
22 technology to operate that we never could before, so

1 we can solve problems and move to the future with
2 the ability to transform the data information in
3 real time. Now we can provide the information the
4 public needs with competitive generation markets
5 across very large regions of the country to make
6 things happen competitively.

7 You can also provide ways that the user can
8 select data. We have a program I didn't bring here,
9 I would love to bring it up for you sometime and
10 give you access to it, called E-data. It's a
11 wonderful program they can pull up whenever they
12 want to, you can get a huge amount of defined data
13 about the system, which way the power is flowing,
14 the load growth, any emergency procedures. You can
15 customize your screens to do whatever you want to
16 do. This is publically available user defined data
17 that comes about.

18 The key to that is that you are talking about
19 hundreds of thousands, literally millions of bits of
20 data that are out there scattered around that people
21 collect in different places. Then we have to go
22 with this transformation process and then we turn it

1 around to thousands of items that are in public
2 information domain and then a handful of user
3 selected items.

4 Again, our challenge is we have to have
5 information in the hands of those that need it at
6 the time they need it in order to make commercial
7 decisions or public policy decisions about this
8 thing called electricity.

9 The exciting thing is where do we stand right
10 now with technologies. And I put this graphic
11 together to kind of given an intuitive demonstration
12 of that. Let me first of all go to the CPU speed.
13 The power and speed are processors which are
14 absolutely amazing with what you can do today. A
15 few months ago we were looking at the possibility of
16 some of the companies in this region deciding to
17 join PJM. How you would solve the 300 bus model
18 over several thousands of generating units. We
19 looked at that, we took a piece here, we put it all
20 in together and we actually ran close on that in 77
21 minutes and that is plenty of time to do a real time
22 security dispatch.

1 Now you can go to a local store and buy 2000
2 megahertz PC, you know, which actually exponentially
3 increases the power and speed that you can do these
4 things. If you look at the smart products that are
5 coming about, the smart things, the band width, the
6 portals, the Internet capabilities to communicate
7 and have this kind of information. We truly are
8 standing at the brink of an opportunity to really
9 make electric industry work healthier and better
10 than it ever has and provide information for others
11 to engage and take a look at this industry. And
12 this is what is happening with technology, and this
13 is really what is driving our business to be
14 successful and move into the future.

15 Finally, we can't ignore the fact that it is
16 complex. It is complex. And we have to internalize
17 those complexities and simplify the life of the user
18 as we go forward. That is always a mantra that we
19 have. So every time we put a new product, we want
20 the users life to be more simple and more complete.
21 But it also means that the most urgent projects
22 require the coordinated contributions of many

1 talented people.

2 One of the things that we have learned is the
3 coordination it takes between the state public
4 policy makers, the individual companies and the work
5 that we do in order to facilitate the market to make
6 it work. There are a number of needs that need to
7 be met. None are more important than the others,
8 they all have to be met. You have to find end
9 solutions. You should not be going forward thinking
10 what am I going to lose, but what information do I
11 need to make sure my public interest needs are going
12 to be met.

13 What we've discovered is as we work together
14 and coordinate the talents of the people on your
15 staffs and our staffs together we find ways to meet
16 the needs that you've defined that you need. But it
17 does take coordinated contributions, it does take
18 the talented people to come together and work with
19 us.

20 One of the things we have moving forward is we
21 have liaisons with the state staffs that work with
22 us explaining the needs we have, the commissions

1 meeting directly with the PJM board talking to the
2 board about their needs, problems, concerns. As we
3 move forward we think this is a healthy way to have
4 a relationship because it does involve coordinating
5 better in a more sophisticated way and also making
6 sure the information is there as we move forward.

7 These are some of the bedrocks that have formed
8 what we've done and allowed us over 5 and a half
9 years to be where we are today. Now, I would like
10 to turn to over to Craig so he can drill down some
11 of the specifics. But before I do, are there any
12 general questions for me on some of this? Thank
13 you.

14 MR. GLAZER: Okay, can you hear me now? First
15 off, I want to also thank you for the opportunity to
16 speak today to the Illinois Commission, it's always
17 been -- I'm very proud over my past to have been
18 associated with commissioners from the Midwest, and
19 look forward to continuing working with you. And
20 Commissioner Kretschmer, I understand today is your
21 19th year on the Commission or something close to
22 that. And that is really is an accomplishment.

1 In fact, let me just, if you bear with me, it's
2 a Thursday morning, let me digress with a story for
3 just a minute. I know there is a lot of material to
4 absorb. There is a famous story, I've always
5 considered sort of Midwest commissioners, you all
6 take a lot of hits, but I always considered Midwest
7 commissioners a very classy bunch of people.

8 There is a famous story about the former
9 chairman of the Ohio Commission, Mike Delmain
10 (phonetic). I don't know if you people remember
11 Mike, he weighed about 300 pounds, he smoked a big
12 cigar, he was a politician from Youngstown, Ohio.
13 One day Mike went out for lunch with a lobbyist from
14 the savings and loan industry. And the lobbyist had
15 one of those Yves Saint Laurent ties with the little
16 YSL insignia on it. Mike stopped the conversation
17 in midstream and asked the lobbyist, since when is
18 Youngstown Savings and Loan giving out ties.

19 So as I said, I always consider all of us a
20 very classy bunch of people, commissioners and
21 really do appreciate the opportunity. Let me, as
22 Phil, said let me drill down a little bit more, tell

1 you about -- a little bit about an overview of PJM
2 and then specifically talk about Com Ed and Illinois
3 Power in the marketplace.

4 I will tell you, we don't have all the answers,
5 this has all happened sort of very quickly but we
6 can give you our thoughts on how we would integrate
7 ComEd and iP into the market.

8 If we can talk a little bit about PJM. PJM is
9 the independent system operator. We are in essence
10 the air traffic controller of the high voltage
11 transmission system in the Mid-Atlantic. But what's
12 also unique and frankly thanks to Phil and the
13 vision of the stakeholders at the time, PJM also
14 began with operating a market for electricity.
15 Something that didn't exist in the original views of
16 a lot with regard to ISO's. But PJM actually began
17 operating a spot market for electricity.

18 We are that information company. We are both
19 the NASDAQ and the air traffic controller, if you
20 will. We have about 66,000 watts of generating
21 capacity, 60,000 peak load and operate in 7 states
22 and the District of Columbia. As Phil mentioned,

1 the critical test is the test of use. And you can
2 measure what success is from a lot of different
3 perspective.

4 One is prices, that's what consumers care
5 about, prices. What is it going to cost me. And we
6 are proud to say that in the PJM market prices have
7 been stable and prices have been very reasonable.
8 99 percent of the time in the year 2000 our prices
9 cleared below \$100 a megawatt hour. And 71 percent
10 of the time the prices were less than \$30 a megawatt
11 hour. The market has worked and it has worked well
12 in this region.

13 Prices are one factor, but the other factor
14 with any business is the liquidity, the amount of
15 trading going on in the marketplace. And you all
16 have done wonderful things in the natural gas to
17 make the Chicago hub a very liquid trading hub in
18 natural gas. We have a similar liquidity in MYN,
19 the PJM west trading hub, and this shows relative to
20 other trading hubs in the country.

21 We are by far the most liquid trading in the
22 United States for electricity. Just another measure

1 in terms of is the market working. We are not like
2 California, we have a healthy mix, even though we
3 market the spot market and we have that
4 transparency, the spot market is only about 15
5 percent of all of the transactions. Most of the
6 transactions are in fact bilateral transactions.

7 Another test of use is investment. Coming in
8 essentially these days with all of the crisis
9 happening in the electricity post Enron, in fact
10 there are over 40,000 watts of new generation in the
11 Mid Atlantic to be built. Not all of it is going to
12 be built, but this is a good indication that the
13 investment community thinks the PJM marketplace is a
14 stable and good place to make money and to make the
15 investment work.

16 What are some of the key ingredients that have
17 made that happen? One is we have an independent
18 board, and I would like to sort of step back for a
19 minute, as I saw living through all the issues
20 associated with the Alliance RTO, they sort of fell
21 into, in my view, and you may have a different view,
22 they sort of fell into three buckets of concerns.

1 One was is this entity, the Alliance RTO really
2 independent or is it subject to dominance by the
3 transmission owners? That is certainly a huge issue
4 over the years.

5 The second bucket of issues associated with are
6 we ever going to have a market? Are we ever going
7 to have a competitive wholesale market in the
8 Alliance? That was another set of issues that
9 everybody was dealing with. And the third set of
10 issues was the rate issues, the rate pancaking
11 issues.

12 Well, I'm proud to say that at least two out of
13 those three issues I think we have solved. We have
14 solved as a result of both this decision of Com Ed
15 and IP to join PJM, as well as some important work
16 that ourselves and MISO are doing to build the
17 common market. I think two out of the three we can
18 check off, and I want to explain that in a little
19 detail.

20 We truly have an independent board. From its
21 beginning it has been the bedrock to be independent,
22 but also to be accountable because it's two sides of

1 coin. You can't be so independent you can't be not
2 listening to people that have skin in the game, the
3 companies who have invested, the commissions, et
4 cetera. We run like a business, we get paid, Phil
5 gets paid, I get paid on an incentive basis. We put
6 out customer satisfaction surveys and we are feeling
7 whether in fact, from the customer, their needs are
8 being met.

9 That doesn't mean that they agree with every
10 decision the board made, but do they feel they are
11 getting a fair shake. Even little things like
12 returning phone calls, even little things like being
13 customer responsive and responsible.

14 State commissions are a very important part of
15 the company. As I mentioned, the board
16 has -- the fiduciary duty of the board is written
17 into our operating agreement. The fiduciary duty is
18 to create and operate competitive nondiscriminatory
19 electric markets. To insure reliability and to
20 avoid undue influence by any market participant.

21 I know there have been issues about whether the
22 ISO should get behind companies revenue requirement

1 proposals or not. We don't do that, we don't get
2 into support or not support, that's an issue for the
3 companies. But we in fact and our board has these
4 fiduciary duties to create and operate the market,
5 ensure reliability, avoid undue influence and the
6 board operates similar to you do with ex parte
7 rules, people can't just ex parte the board, they
8 can't take gifts, et cetera.

9 You may remember, Commissioner Kretschmer, John
10 Coughlin, formerly of the Wisconsin Commission is
11 one of the founding members of the PJM board of
12 managers, and is still on the PJM board of managers.
13 There has been a lot of talk in the Alliance issues
14 about an open stakeholder process. A lot of people
15 talk about that this has really been a bedrock
16 principle. Actually on Tuesday we just, at a
17 meeting we had, a particular issue that involves a
18 Delaware, Maryland and Virginia commission, we
19 worked it through with the commission and we brought
20 it to and worked it through the stakeholder process.
21 It is part of how we do business and have that
22 openness.

1 But that being said, we don't treat a state
2 commission as just another stakeholder. We have a
3 memorandum of understanding for direct communication
4 between the board and the state commissions. We are
5 actually having such a meeting at the Mac work
6 meeting, and we certainly would invite you all to
7 participate in that meeting as well. And it's a
8 nice location in addition. It's where Mac is holding
9 its regional meeting.

10 Operational authority obviously important.
11 Control over reliability, those are sort of the
12 bedrock principles that have made PJM work.

13 That being said, let's move forward -- let's
14 talk about Com Ed and Illinois Power in the PJM
15 market. I don't have to tell you the history, you
16 know that better than I, what Order 2000 said. It
17 allowed companies to voluntarily join a regional
18 transmission organization.

19 And FERC found that the proposed on April 25th
20 -- back in December and again in April FERC told the
21 Alliance companies, Illinois Power, Com Ed, Ameren,
22 et cetera, to negotiate both with MISO and PJM. And

1 at the end of a 30-day period tell the world what
2 their decision is. Well, I believe it was May 28th,
3 Com Ed and IP made a filing with FERC.

4 That filing committed Com Ed and IP to become a
5 member of what we call PJM West. It essentially is
6 the PJM agreement with some modifications to reflect
7 that it's a different reliability counsel. And Com
8 Ed and IP made an interesting statement. They said
9 they will join either on a stand alone basis as a
10 transmission owner or as a member of a grid company
11 with our Alliane companies.

12 So this whole issue about what the role of an
13 independent transmission company is is certainly one
14 that was flagged as important, but the companies did
15 make a commitment to join in either event, so we
16 don't get ensnared if that issue gets extended.

17 This talks about Day 2. I want to step back
18 for a minute. There is always a whole lot of
19 discussion, I know, in the MISO meetings about Day 1
20 and Day 2. Day 1. What do you do on Day 1. These
21 systems are run one way, and in fact you have to
22 turn functional control over to a different entity.

1 So what do you do on Day 1? And we actually said,
2 when Com Ed, IP and the other companies met with us
3 said, we are a Day 2 organization. We are about
4 getting to markets quickly.

5 So we can talk about what we do in this interim
6 period of time, and what can happen, but we are
7 about -- if you want to join PJM that's fine, if you
8 don't want to join PJM that's fine, but here's the
9 package. This is what we are about, we are about
10 markets, we are about independence, we are about
11 market monitoring, et cetera. So in our discussions
12 with them there is a Day 1 proposal beginning in
13 October of this year for us to begin to take over
14 certain functions, a planning function to oversee
15 reliability and security coordination to have our
16 market monitor available to respond to complaints.
17 So those are sort of transition mechanisms, and
18 those are important to move quickly.

19 But as I said, we told the companies, let's get
20 there, let's not just talk about it, let's get
21 there. And Day 2 in PJM is about having an
22 independent experienced operator in the market. As

1 Phil had mentioned, Day 2 in PJM is about having an
2 active market monitoring, overseeing actions
3 happening in the marketplace. Day 2 is full
4 functional control in independent hands.

5 And as Phil mentioned, we don't throw the
6 switches, people don't even have to follow dispatch
7 instructions. What we are is we provide critical
8 information that makes the market work. We send out
9 a signal to generators, a price signal and say, come
10 in, this is the price at this particular location,
11 generator interconnection and planning in
12 independent hand. And reliability in experienced
13 hands.

14 You probably now are asking yourself, what is
15 the entity? It's far away, what are the benefits,
16 what is in it for the State of Illinois? One thing
17 is we have done this before. We have done this
18 before. Although we started as a tight power pool
19 the original PJM, we in fact have joined the
20 Allegheny system, a five state system part of ECAR
21 region. And we have proven that in fact we can have
22 the PJM model over multiple control of others, and

1 over multiple reliability counsels. PJM went into
2 operation on April 1st, on time and under budget,
3 and we now have a market in the state of Ohio, in
4 the state of West Virginia and places where they
5 never had a market, was never part of the old PJM.

6 The second part, I'll go to the third bullet,
7 there is another benefit. I mentioned the state
8 commissions have direct access to the board, not
9 just to management, to the board. So if they have a
10 problem with management they can go right to the
11 board and indicate, and that's an important part of
12 our operation.

13 The third point is really an interesting one,
14 this came up at the FERC meeting yesterday. Com Ed
15 and Illinois Power are strongly intertied with AEP
16 and PJM. If you look at the map, if you look at
17 geography and say, oh, wait a minute it's far away.
18 But the electrons don't care about geography. The
19 electrons care about the topology of the system.

20 Before I came here I dialed up Mapquest. If I
21 need to go from Chicago to Milwaukee on Mapquest it
22 tells me where my entrance ramp is, it puts me on an

1 interstate highway and it tells me where I get off.
2 And it measures the time and distance associated
3 with that.

4 What it doesn't do, and for a good reason, is
5 it doesn't say, well, there may be another way to go
6 going on these back roads and then measure all the
7 stop signs, the school bus zones and all of that.
8 In fact, it finds the highway, the super highway to
9 get from Point A to Point B. Well, we do that
10 naturally as we drive, electrons do that by the law
11 of physics. They actually go to those extra high
12 voltage systems.

13 And if you look at this map, you can see that
14 actually Com Ed and IP are very strongly intertied
15 with American Electric Power, and through American
16 Electric Power with the PJM system. These are the
17 super highways. This is where the electrons flow
18 365, 500 and 765 lines. They are the interstate
19 highways that the electrons follow.

20 It doesn't mean the other connections are not
21 important, but in fact when you go to have a market,
22 you need a back bone, just like an interstate

1 highway. And that is the back bone. And those
2 lines through Indiana are also part of the AEP
3 system as well. So I think it's important not to
4 focus on geography, to focus on topology. If you
5 look at the topology, it looks a lot different.

6 A couple of other benefits of joining PJM
7 locational marginal pricing. It shows the costs are
8 born by entities causing the cost, rather than by
9 all the consumers. Commissioner Kretschmer, you
10 talk about universal service discussions, but we
11 don't have auto insurance. We don't have people in
12 downstate subsidizing the high cost of the auto
13 insurance. I still remember I used that analogy.

14 Also insures that the costs are born by the
15 cost causer as opposed to subsidizing the costs and
16 spreading them around, and one state paying for
17 another's cost reliability and against transparency
18 and robustness of the market. These are troubled
19 times, investors are looking for confidence and the
20 PJM market, as I mentioned, shows that confidence.

21 There also is the market is facilitated by the
22 fact that there is divergent weather variations.

1 When I got here it was really cool in Chicago and
2 yet in Washington it was over 80 degrees at the same
3 time. In fact those weather variations and even the
4 time zone change has a huge impact on having
5 efficient generation. It means that when a front
6 goes through if, in fact, there is low cost
7 generation, if it's hot in Chicago and cool in the
8 PJM region, low cost, we will be able to dispatch it
9 here to meet the load and vice versa.

10 Those patterns are very, very important to
11 having an efficient and low cost system that
12 delivers value to customers. And I want to just
13 touch on two other points. The PJM states are a lot
14 like Illinois. I remember, and not to take anything
15 away from the discussion with the MISO, they were
16 great discussions, but there was also South Dakota
17 and the interest of a state like Illinois that don't
18 have necessarily the same issues.

19 When you think about it, our states look a lot
20 like the State of Illinois. All of the PJM east
21 states are unbundled and under retail choice just
22 like Illinois. We have a similar profile of heavy

1 dependency on coal and nuclear just like Illinois.
2 Our states find direct access to the board and the
3 independent management on important issues, just
4 like what I understand from Illinois. We have a mix
5 of sort of large cities, we serve Washington and
6 Philadelphia. And we've got small towns and
7 villages as well just like Illinois. Our states
8 have a large industrial base just like Illinois.

9 And in fact, if anything, there are a lot more
10 synergies between the PJM states and I invite any of
11 you to talk to your colleagues in the PJM states,
12 ask them what do they think, how has it worked, are
13 they comfortable with it.

14 Well, let's now go to the swiss cheese issue
15 that people bring up. Other Alliance companies on
16 May 28th announced they were joining PJM. American
17 Electric Power, which is really part of the back
18 bone system said they were going to join PJM, as did
19 Dayton Power and Light. But First Energy, Northern
20 Indiana Public Service and Ameren announced they
21 were going to join MISO.

22 I mean, the question is, and it's really a

1 regulatory question, the question is do we spend the
2 next two years litigating that issue, do we try to
3 draw the lines, and we could do that, this is not a
4 perfect configuration, or do we try to make this
5 thing work. I think that's really the nub of the
6 issue.

7 And what I think is markedly different here
8 than what we had with the Alliance, MISO had with
9 the Alliance is MISO and PJM have a similar vision
10 of where we want to go. We have announced an
11 initiative to do a joint and common market across
12 this region. Once that joint and common market is
13 in, those seam issues essentially disappear. There
14 is still issues associated with capacity, et cetera.

15 But the key step is that that joint and common
16 market solves a lot of these issues, so these are
17 really transition issues. And frankly Com Ed's,
18 AEP's and IP's movement toward PJM is a significant
19 step in achieving the benefits of those joint and
20 common markets, faster achieving those for the MISO
21 states and the PJM states. Why is that? Because we
22 have an established infrastructure. We can add IP

1 and Commonwealth Edison more quickly, and at
2 relatively a lower cost than if you had to build
3 that infrastructure from scratch.

4 And in addition, MISO has announced an intent
5 to go from the west east, to move in from Nebraska
6 and Kansas so those two regions will match and we
7 will get to that joint market quickly. The priority
8 is getting the seams issues up and running.

9 Let me close with sort of where do we go from
10 here, what's important. Number one thing that is
11 important to us is identifying what your needs and
12 priorities are. We've done a lot of speaking, but
13 really for the rest of this meeting we want to do a
14 lot of listening. That is why Phil is here and
15 myself. We want to understand what the state
16 commission's concerns are. And we want to try and
17 meet those and engage in that dialogue. It's a key
18 step going forward if this is going to work.

19 Number two, we need to cooperate with MISO, we
20 have a great relationship with MISO to manage these
21 issues. Number three, and Phil is famous for saying
22 this, little steps for little feet. California

1 tried to do it all in one big giant leap, and I
2 don't think that, and as history tells, that's not
3 the way it goes. An incremental approach for moving
4 these markets in, I think, is the way to move this
5 forward for the benefit of both regions.

6 And finally, as Phil had said, maintaining
7 openness and building trust in the independence, the
8 experience and the commitment of this organization.
9 I will close with that, thank you for your time, and
10 we will be happy to take questions.

11 COMMISSIONER HARVILL: Are there questions from
12 the commissioners? Commissioner Kretschmer.

13 COMMISSIONER KRETSCHMER: Well, I certainly
14 appreciate what you said Craig. My concern,
15 however, is that you are not getting the same
16 response from FERC that you may get from Illinois or
17 some of the states. And I'm wondering, are you
18 concerned by some of the rather difficult statements
19 that are coming out of the FERC? Do you think it's
20 going to have an impact?

21 I read today in Power Daily, covering the
22 midwest, where again the chairman of FERC is simply

1 not expressing confidence in the two midwest or even
2 in the northeast part either, with the plans that
3 the utilities are making. And he seems to have some
4 ideas about doing something else faster. Have you
5 heard anything from them and what is your
6 understanding?

7 MR. GLAZER: Both Phil and I were at the FERC
8 meeting yesterday. And it was a really fascinating
9 meeting. Pat Wood has a really unique style in the
10 way he runs a meeting. And my sense of it yesterday
11 was they were really struggling with this. They
12 were really struggling with, can this thing work,
13 can we make it work. And I think they wanted to go
14 there and wanted to hear that.

15 And then their natural suspicions that they
16 have, and you can argue whether those are valid or
17 not, but they have sort of natural suspicions given
18 some of the past history with the Alliance
19 companies. So my sense is they were struggling. It
20 was not a meeting that reached any definitive
21 decision, and they asked all the companies to come
22 in in two weeks.

1 I think critical to this, quite frankly, is
2 what the states have to say. I think that is really
3 critical, I think that's a piece of the puzzle that
4 hasn't weighed in at this point yet. Clearly Pat is
5 looking for that, I understand there is going to be
6 a discussion at the market meeting. There is
7 supposed to be another state FERC conference call.
8 And I think my sense of it, I think that that will
9 have a big influence on what he does.

10 COMMISSIONER HARVILL: Mr. Chairman.

11 CHAIRMAN MATHIAS: Commissioner Harvill, if I
12 could just ask two or three questions concerning the
13 status of the Illinois Power and Commonwealth Edison
14 application. Has the application for membership in
15 PJM been filed with PJM? And has Commonwealth
16 Edison and Illinois Power given notice to the
17 Federal Energy Regulatory Commission that they
18 intend to be a member of PJM?

19 MR. HARRIS: Perhaps I can explain by talking a
20 little bit of the process we are involved with.
21 What we've done is that we've executed a memorandum
22 of understanding, or close to executing a memorandum

1 of understanding and announced the intent and
2 putting it together.

3 CHAIRMAN MATHIAS: Has the memorandum of
4 understanding been signed by PJM and either Illinois
5 Power or Commonwealth Edison?

6 MR. HARRIS: My understanding is that it has
7 been executed. It hasn't been filed with FERC yet,
8 but I understand it has been executed. I know we've
9 signed our side of it and it's been staffed around.

10 CHAIRMAN MATHIAS: And then what is the next
11 step in the process?

12 MR. HARRIS: What the memorandum of
13 understanding does is it defines a period definite.
14 And we are looking at 45 to 60 days. What takes
15 place in that time frame is that we define the work
16 that needs to be done. It's a detailed development
17 plan and the end result of that, and we will execute
18 what is called a development plan. And this is the
19 crucial element.

20 Once the development plan is executed, that's
21 the go, no go point because then you are starting to
22 spend money, putting in the processes and you build

1 it up. It's a plan you work, work your plan. The
2 development plan is the key. And if it takes us
3 that long to get your technical staffs together, to
4 work out the details and the MOU is intent to put
5 together the development plan, the development plan
6 is together, it's done and at that point the process
7 is going to conclusion.

8 CHAIRMAN MATHIAS: When would the Federal Energy
9 Regulatory Commission approve the application of
10 Commonwealth Edison or Illinois Power to become a
11 member of the PJM?

12 MR. HARRIS: I would anticipate when they would
13 transfer their 203 rights, which would be somewhere
14 down in the process.

15 CHAIRMAN MATHIAS: Is that after the plan that
16 you just mentioned would be executed and completed?

17 MR. HARRIS: Probably.

18 MR. GLAZER: It's a little curious as to where
19 things are at, only in the sense that FERC ordered
20 the companies to file their intentions. It wasn't
21 clear whether FERC is going to act on that document
22 or not, but they all filed their intentions. Com Ed

1 and IP indicated they were planning to join PJM.

2 What the next step is is the plan. Upon the
3 execution of that plan, that is when money starts
4 changing hands, that's when they have to start
5 shelling out money because we need to begin doing
6 the detailed design work, et cetera. In that
7 process they are then to make a formal application
8 to the FERC. We are looking at, and the discussions
9 we've had with them, having these transfer of these
10 fundings, this Day 1 as I've talked about, in
11 October.

12 So before that happens they would have to make
13 a FERC filing. So we are looking at something into
14 September or October time frame at this point.

15 CHAIRMAN MATHIAS: The actual filing by Illinois
16 Power and Commonwealth Edison would be made in that
17 time frame? Or would the approval of the Federal
18 Energy Regulatory Commission be forthcoming by that
19 time?

20 MR. GLAZER: Well, before we can do this even
21 Day 1, this needs the approval of the Federal Energy
22 Commission and Com Ed and IP. We've talked about a

1 date in October, so then you back it up, and you are
2 looking at a FERC filing presumably in September.

3 CHAIRMAN MATHIAS: Let me ask the question
4 again. Is the approval of the Federal Energy
5 Regulatory Commission anticipated to be in that
6 October time frame?

7 MR. GLAZER: I believe so. Again this is their
8 filing, it's probably a better question to ask them.
9 But given that, we can't even do Day 1 without the
10 FERC's approval. So that approval would be needed
11 at that time.

12 CHAIRMAN MATHIAS: As I'm sure the other
13 Commissioners share the concern that I have in that
14 there is a provision in the Illinois Electric
15 Restructuring Law that Illinois Power and
16 Commonwealth Edison were to be a member of a
17 regional transmission organization and have the
18 application approved by June of 1998. And here it
19 is in 2002 and we are still going through a process.
20 We have no operating region transmission
21 organization with regard to these or other utilities
22 in the State of Illinois.

1 And are you suggesting then that in the answers
2 that you've given that the FERC approval would occur
3 sometime in October time frame, October of 2002, or
4 the fourth quarter of 2002?

5 MR. GLAZER: That's what I'm envisioning, yes.

6 CHAIRMAN MATHIAS: And then at what point in
7 time do you believe the transition to a workable and
8 unified wholesale market in the PJM area, which
9 would include Commonwealth Edison and Illinois
10 Power, would be concluded?

11 MR. HARRIS: Our initial thoughts right now that
12 would be towards the end of '03. What we would
13 probably do is increments. Probably if everyone
14 came in and we got started soon we would probably
15 try to get AEP's market up and running by May of
16 '03, a month or two after that we would bring in Com
17 Ed, and then bring in the others. You need to have
18 a three or four month phase in there so we would
19 anticipate by the end of '03 you would have all the
20 markets working.

21 CHAIRMAN MATHIAS: So basically six years after
22 the Illinois Restructuring Law was enacted and five

1 years after the two companies were to have been
2 members a regional transmission organization, we
3 might have a workable and unified wholesale market?

4 MR. GLAZER: Our intention -- again, there was a
5 lot of time here that you would have take up the
6 history of Alliance with them. We agree, we agree
7 that whole situation went on way too long and burned
8 up critical time that was needed here in Illinois
9 and elsewhere, so we agree.

10 But now the question is, where do we go from
11 here and how do we move forward? And we are looking
12 at, because we are an established organization with
13 an infrastructure, from this point forward we can
14 get those markets in quickly. And what's happened
15 in the past you will have to take up with them.

16 CHAIRMAN MATHIAS: And one other question. I
17 know Commissioner Harvill has a number of questions,
18 but where is the -- where does the application stand
19 vis a vie, the intent of Illinois Power and
20 Commonwealth Edison to have a for profit
21 organization within PJM?

22 MR. GLAZER: Part of the MOU that has been

1 discussed would be that they would turn over
2 operational control to an independent entity. It's
3 not clear 100 percent who that is going to be at
4 this point, but that entity would in fact be the
5 interface between us and IP and Com Ed in this Day
6 1.

7 And we have actually talked about an actual
8 split of functions, and we have actually worked out
9 with the National Grid Company an actual split. The
10 functions that we think don't get in the way of the
11 marketplace and allows the marketplace to happen,
12 but also allows the growth of independent
13 transmission companies.

14 CHAIRMAN MATHIAS: And does the memorandum of
15 understanding or any other written agreement between
16 Commonwealth Edison and Illinois Power give a date
17 by which there must be a resolution of whether or
18 not this sub group within PJM will be operational
19 and whether or not it will be for profit or not for
20 profit?

21 MR. GLAZER: Well, again the MOU talks about a
22 45-day process to sketch out these issues. There is

1 a split of functions that we have worked out, but
2 obviously there is details.

3 CHAIRMAN MATHIAS: Let me follow up. When you
4 say it outlines a 45 day process, does that mean
5 within 45 days from the date which has been in the
6 recent past you must have a decision on whether or
7 not this would be for profit, a not for profit, a
8 national grid type of operation within PJM?

9 MR. GLAZER: The company has submitted in their
10 FERC filing, again back to the slide that they would
11 join either through an independent transmission
12 company or as transmission owners. I read that as
13 saying one way or the other, we are not going to get
14 ensnared in this issue, and we are going to join.

15 CHAIRMAN MATHIAS: When must that decision be
16 made, within that 45 days?

17 MR. GLAZER: Yes.

18 COMMISSIONER HARVILL: Following up on the
19 chairman's question, can you talk a little bit about
20 the AEP MOU, because my understanding is it's quite
21 different from the MOU that was drafted by Illinois
22 Power and Commonwealth Edison.

1 MR. GLAZER: It was an interesting genesis.
2 Some day we could all write books about this whole
3 experience. But AEP came to us, again this was a
4 compressed 30 day process, roughly about the 20th
5 day of the process AEP came to us and said, you know
6 what, we don't know where this is going with the
7 Alliance companies, we want to get this going and we
8 want to get a market in our region. So we want to
9 sign an MOU with you all.

10 We said look, we are an open organization, if
11 people want to join they can. We are not going to
12 go do special things for you, but if you want to
13 join you can join. The MOU with AEP was executed,
14 there was a couple of provisions, I know there was
15 some focus on it, there were a couple of provisions
16 they had said if we don't resolve rate issues they
17 could walk.

18 There actually has been a lot of discussion and
19 really a resolution of a lot of those issues. There
20 will not be rate pancaking between PJM and AEP.
21 That was one of the conditions. They had a
22 condition about we want to look at the PJM reserve

1 requirements. In light of the AEP joining the
2 system, we think that's appropriate. You obviously
3 have more generation coming, you look at that, this
4 is a condition that is not a problem to me.

5 COMMISSIONER HARVILL: What was the time frame on
6 the AEP MOU that they signed?

7 MR. GLAZER: It's the same time period we are
8 talking about, this 45-day to 60-day time period.

9 COMMISSIONER HARVILL: It doesn't extend out to
10 one-year, the time in which you could negotiate with
11 AEP. And at the end of that time period you've
12 stated earlier, if these issues aren't worked out,
13 and I don't know how one would determine whether
14 they are or are not worked out because obviously AEP
15 may have a different opinion than you, at the end of
16 a 365-day period they could walk and we could be
17 back.

18 MR. GLAZER: There was no one year clock. It
19 was the same -- I mean, we went to them and said
20 look, this is how we do business. We have this
21 period, we put the plan together, we do it quickly,
22 we do 45, 60 days to find out what are the details

1 and then money starts changing hands and things
2 happen. So those provisions are very similar to the
3 Com Ed, IP.

4 COMMSSIONER HARVILL: There has been a very long
5 history with our Illinois utilities and other
6 midwest utilities in trying to get functioning RTO's
7 in place in the Midwest region. That being said,
8 and the time frames the chairman has just outlined,
9 there were statements made by executive of
10 Commonwealth Edison and Illinois Power that their
11 reason for going to the PJM market was because of
12 AEP's indication that they were going to negotiate
13 to join the PJM market.

14 And the skeptic in me sits back and says we can
15 go through a 45-day process where at the end of that
16 process AEP would then say, this isn't the best
17 thing for us, we are going to withdraw from
18 negotiations with PJM which would necessitate then
19 Com Ed and Illinois Power pulling out of the process
20 because of the link with AEP and PJM, and we could
21 be back at the end of this process.

22 I don't need to tell you as a former regulator

1 that in many instances delay isn't in the best
2 interest of the utilities. We're talking about here
3 they have played this game very well for the last
4 several years and there is nothing that at least
5 I've seen that would indicate they have stopped
6 playing that game.

7 MR. HARRIS: Your perception may be exactly
8 correct. You can opine on that better than we can.
9 What we are doing is we understand how to bring in
10 systems from multiple control areas and different
11 counsels. We know what it takes to get the job
12 done, we've outlined I think an honest, very
13 intellectually honest with AEP, Com Ed, Illinois
14 Power, et al. for the people that want to come in.

15 The MOU that we have executed is very similar
16 as to what we did with APS. I haven't seen a lot of
17 strange things in it. The intent is that we are
18 going to start at some point in time. Now we really
19 haven't kicked it off yet, that 45-day clock, and
20 that is a little bit of a concern is where is it, as
21 the chairman was pointing out.

22 But the intent is that once we start the clock

1 on that 45 days we will follow that process where
2 staffs will get together, we will work the technical
3 details and you have then a plan. The development
4 plan is a key because that is the gold mark that
5 they have to commit to go through the end. And that
6 is the real crucial point.

7 COMMISSIONER HARVILL: You mentioned about the
8 situation that would develop, assuming IP and Com Ed
9 join PJM, you mention that PJM market would be
10 extended to Commonwealth Edison, Illinois Power by
11 the end of '03 in, I believe, your response to the
12 chairman. Can you explain how the resources in the
13 new PJM west territories will trade with the
14 Illinois MISO members?

15 MR. HARRIS: Are you talking about how we would
16 handle the sales?

17 COMMISSIONER HARVILL: Yes.

18 MR. HARRIS: Well, that would have to be
19 defined. What you are involved with is you are
20 going to have different states in the market. Right
21 now we have a functional market five minutes away.
22 You operate free so forth, but right next to us in

1 AEP they don't have that, so you have to deal with
2 that issue.

3 So the way you understand that is that once you
4 get the development plan, you put that together, you
5 work with the entities around that to define what
6 the needs are for areas that haven't got their
7 market yet. It really does go back to plan the
8 work, work the plan. Understand the needs of those
9 that are not in the market and you get into a lot of
10 details of how do you handle if you have a security
11 restraint and so on and so forth, putting together
12 protocols until those regions have markets that you
13 can move ahead with.

14 COMMSSIONER HARVILL: I think you understand our
15 concern. We now have Illinois utilities that have
16 announced their intent to join PJM and Illinois
17 utilities that have announced their intent to join
18 MISO. That being the case, an example would be
19 Commonwealth Edison, Illinois Power now have to pay
20 the PJM West when they trade with Ameren and SOCO
21 and the other Illinois utilities that are part of
22 MISO and what costs will there be associated with

1 that?

2 MR. HARRIS: The rate issues we are going to
3 have are the same in Virginia. We have half of the
4 state, PJM has half, half of it not. So those are
5 things that we define, get together and we come up
6 with solutions.

7 COMMISSIONER HARVILL: I think you mentioned
8 earlier that a lot of this will hinge upon the state
9 Commission's input to the FERC. And I guess without
10 having some indication of how those issues are going
11 to be resolved, at least initially, it's going to be
12 real hard, at least for me, I don't know about my
13 colleagues, to sit here and say this is a workable
14 solution to the RTO problem that exists in the
15 Midwest today.

16 Because if a scenario develops whereby the
17 seams aren't worked out in a situation where they
18 are going to increase cost to Illinois consumers, I
19 think it would be very difficult for the Commission
20 to say this is an appropriate solution. And there
21 again a long history, and a certain amount of
22 cynicism that's developed over the years, trust us

1 is not an appropriate to response that it will get
2 all worked out.

3 So maybe this isn't necessarily directed at you
4 and maybe it's directed at our two Illinois
5 utilities that have chosen to go that route and I
6 think you see our problem.

7 MR. HARRIS: Absolutely. And if you just take
8 the problem and roll it out whether or not you have
9 markets or you don't have markets, the state has the
10 same problem and many states have that problem. And
11 you have to deal with it. And now you have it, it
12 has to be dealt with, and I think that's the first
13 thing. Your questions need to be answered, you need
14 to have answers to them to your satisfaction to make
15 sure your public duties are met. And that's just
16 part of the given of going forward. But what we
17 have to do is that anybody can put together a
18 scenario and say what if.

19 Again, you put together the plan, you work
20 through the details, you engage in discussions with
21 those that think they may have a problem or in
22 reality do have a problem, and then you have a

1 protocol to deal with it and the people understand
2 that protocol all that is the things that you do
3 that are necessary before you go into the plan.

4 COMMSSIONER HARVILL: Let me ask this question,
5 and if there are follow-up questions I will be happy
6 to allow those. The question is I see a solution to
7 this problem, which is our two Illinois utilities
8 join the MISO and you have a continuous market in
9 the Midwest as opposed to term that swiss cheese or
10 whatever anybody else called it, and it seems as if
11 unless those questions are answered initially, the
12 default position seems a heck of a lot better.

13 MR. GLAZER: First of all, these are excellent
14 questions and these are legitimate issues, but I
15 wish it was as simple as that. If it was as simple
16 as that then maybe they should just go join the
17 MISO.

18 The same issues exist if the company had joined
19 MISO because as Phil said MISO is not going to roll
20 out a market on Day 1 for the entire State of
21 Illinois. So there was going to be a seam anyway.
22 Their plan is also an incremental plan and where

1 different companies fit in that plan is a piece part
2 of it.

3 COMMISSIONER HARVILL: But the seam won't be
4 through the middle of Illinois.

5 MR. GLAZER: You don't design a market based on
6 state boundaries. So what MISO's plans would have
7 been is an appropriate question to ask.

8 COMMISSIONER HARVILL: I guess you want to
9 minimize the problems, and if -- obviously markets
10 have boundaries, but if our two Illinois utilities
11 that normally trade power on the wholesale market
12 all of a sudden have a seam between them and the
13 rate determinations between those two entities is
14 now changed and increased costs.

15 MR. GLAZER: Let me discuss. There are two
16 separate issues and if we aren't careful we will get
17 them mixed up. There are issues with market
18 implementation and market roll out, and that is an
19 ISO to ISO issue. We have actually addressed that
20 issue because we are working with MISO to have a
21 joint and common market by 2005.

22 You have a transition issue here but you don't

1 have a long term problem because the two entities
2 are going to have a single market and then you don't
3 have that seam. During that period of time, then,
4 you are into the question of what is the impact. Is
5 it much different than today? I would argue that
6 you actually have a market in Com Ed and IP that
7 benefits those other, as well the other parts of the
8 state as well. And you have it faster than you
9 might have if the MISO roll out had come, and that's
10 not taking anything away from MISO.

11 Let me now go to the rate issue. The rate
12 issue -- here's the deal with the rate issue, it's a
13 regulatory issue. It's a question of the FERC Order
14 2000 said the companies are entitled to their lost
15 revenues for some period of time. They said
16 companies should not be penalized -- should not lose
17 revenue. They didn't say revenue requirement, they
18 said revenue, which is interesting, should not lose
19 revenue from joining an RTO. And we will give them
20 their lost revenue, once that policy decision, which
21 has been made by FERC, then it's just a question of
22 how do you take -- what amount of money are you

1 giving the companies over what time period and how
2 do you squeeze it in with rate caps and choppy
3 credits.

4 COMMISSIONER HARVILL: I think the rate design
5 issues can be worked through, that's probably the
6 least of my concern. My concern really is the inter
7 RTO relationships in that transition period before
8 the joint and common market is in place. And I'll
9 tell you what, if it doesn't work probably in that
10 transition period it could kill it before it gets
11 out of the gate. I'm going to turn questions over
12 to the other commissions.

13 COMMISSIONER KRETSCHMER: Well, I'm just going
14 to make two points, and leave it at that. First of
15 all, my understanding is that 80 percent of Com Ed's
16 transmission to the east goes through AEP so it
17 seems logical to me that that would be convenient,
18 and in fact almost mandatory that they be in the
19 same RTO or the same PJM, whatever you are going to
20 call what this thing, as AEP, since 80 percent is a
21 large amount of their transmission going east.

22 The other thing I don't quite understand is why

1 we are so surprised that it's taking so long. I
2 would hear on 1184 when AT&T was broken up and at
3 that time everybody said, oh, this market is going
4 to develop in maybe 2, 3, 4 -- maybe just even a
5 year. Well, it's now 18 years later, and we still
6 don't have a robust market in telecommunications.

7 I don't think it's going to take 18 years for
8 the electric utilities to realize the robust market,
9 but I don't think it can be accomplished in three or
10 four. I think our legislature when they drafted the
11 legislation did not have an understanding of what
12 was involved. I think by now they know that they
13 were overly optimistic when they thought this robust
14 market was going to appear.

15 But it does seem to me that a business decision
16 has been made by our electric utilities, they have
17 every right to make a business decision. A couple
18 of them have choose to go PJM which is a functioning
19 market which I have watched over a number of years,
20 in fact I think, Craig, you and I sat through some
21 presentations years ago at NARUC on how well the
22 market was functioning. Nora Bronnel give this

1 fantastic and amazing long report on PJM, on how it
2 was operating in Pennsylvania, Maryland and so on.
3 And now she seems to have great reluctance to take a
4 position there.

5 But the market will be formed. I think it is
6 to be expected and can be done in incremental steps.
7 I don't think any organization could assume the
8 responsibility in one felt swoop. It can't be done.
9 So I am reassured by your statement that you think
10 this is going to be up and running by 2003, 4.

11 MR. HARRIS: I think end of 2003.

12 COMMISSIONER KRETSCHMER: It seems to me a very
13 sensible time frame. I would be reluctant to give
14 great approval if you told me you told me you'd do
15 it by the end of 2002 because then I think you would
16 be rash and it wouldn't be the proper testing.

17 On the telecommunications side we have been
18 working doing testing for a year, and now we are
19 told it may take another year of testing. So from
20 my perspective, 2003 sounds like a logical time.
21 And once again I'm reassured that our two largest
22 utilities have gone to an organization that has been

1 doing this for five years or six years, however long
2 it's been, so I'm not the least bit concerned about
3 the time frame. I think we are operating on a time
4 frame that is logical and reasonable.

5 As far as the MOU, remember we are dealing with
6 another regulatory body that in the sense created
7 the problem we are in now by having a change of mind
8 when the chairman changed. We have a change of
9 chairman, under Kurt Auber there had been temporary
10 approval given, conditional approval given and under
11 Pat Woods, Chairman Pat Woods, there has been a
12 different emphasis given. When you have a change of
13 commissioners at the FERC it seems to me that
14 companies should be expected to be able to rely on
15 the previous commission when they are that far down
16 the line.

17 So when we had this -- when this happened with
18 the FERC, obviously things changed. I hope that the
19 Illinois commission when we have a change of
20 commissioners doesn't make sudden moves in different
21 directions. But I do think that this commission now
22 knows where they want to go. They seem to be, like

1 I said, on a course and I think they will follow
2 through on that course.

3 So my confidence level is raised, Commissioner
4 Harvill, that the FERC is going to move forward, the
5 utilities cannot move forward without the FERC in
6 lock step with them. So the deadlines that we try
7 to set or the deadlines that the companies try to
8 set are really dependent on the FERC action. So
9 what we need to be doing is telling FERC that we
10 would appreciate setting some reasonable deadlines,
11 moving forward in a timely fashion, and getting this
12 thing moving.

13 The FERC -- the entity we need to be talking to
14 is not our companies, we need to be talking to the
15 FERC and telling them how important it is that they
16 have a policy and they move forward on their policy.

17 CHAIRMAN MATHIAS: In the slides which you have
18 presented, you had a number of slides which I would
19 refer to as the just like slides, just like Illinois
20 slides. Would you agree that the, in general, the
21 states which are members of PJM are just like
22 Illinois, at least Illinois as represented by

1 Illinois Power and Commonwealth Edison, in that they
2 are relatively high cost revenue?

3 MR. GLAZER: Yes.

4 CHAIRMAN MATHIAS: And would you agree that the
5 MISO states looking to the west and south are low
6 cost electric states, quite similar to Ameren, CIPS,
7 and SOCO?

8 MR. GLAZER: Yes.

9 CHAIRMAN MATHIAS: And wouldn't that mean that
10 perhaps as a supplier of low cost electricity that
11 you might have a higher -- you might have an ability
12 to have a greater margin if you were to sell
13 electricity to the east rather than to the west?

14 MR. GLAZER: You are talking about a utility in
15 Iowa?

16 CHAIRMAN MATHIAS: If you are an Illinois
17 electric generating company, an affiliate of an
18 Illinois utility and we in Illinois have the
19 generation to affiliates, therefore the profit
20 potential for selling supply would be greater going
21 east than it would be going west into the low cost
22 states?

1 MR. GLAZER: Let me say, yeah, there is no
2 question that the overall price differentials
3 selling in Chicago here is, you know, they are
4 potentially higher margins than there are selling in
5 Nebraska, there is no question about that. I won't
6 deny that. An interesting thing, though, when we
7 put our markets in, the traditional assumptions that
8 we had about where the power flows went were proven
9 wrong.

10 When we put PJM west in Allegheny Power, a
11 traditional low cost supplier, and everybody thought
12 power from Allegheny Power is going into
13 Philadelphia, into Washington DC, you know what
14 happened, it actually went the other direction.
15 There was low cost nuclear power in the east that
16 actually flowed into Allegheny. And the flows
17 actually went in the other direction.

18 So we can sit here and almost intuitively say
19 power would go to the low cost region, interesting
20 things start to happen when there is a market that
21 hour by hour a weather front going through east to
22 west, north to south can change everything.

1 Although I generally agree, I just have that word of
2 caution.

3 CHAIRMAN MATHIAS: Second question, has the
4 memorandum of understanding been provided to the
5 Illinois Commerce Commission staff? And if not,
6 would you provide it to the Illinois Commerce
7 Commission staff with regard to Illinois Power and
8 Commonwealth Edison?

9 MR. GLAZER: I would be happy to provide it. I
10 think I want to talk to Com Ed and Illinois Power
11 about it before we do that.

12 COMMISSIONER KRETSCHMER: I think we should ask
13 the utilities.

14 CHAIRMAN MATHIAS: I am asking the witnesses
15 today.

16 MR. GLAZER: I'll be perfectly honest, here's
17 the rub, I'm not faulting it for this, it's not
18 unusual, they insisted upon a confidentiality
19 agreement because the MOU has not been filed at this
20 point. I can't do it without mutual agreement, so
21 we don't have any problem with releasing the
22 application, but I do have to ask them or there is

1 all kinds of nasty penalties. But I will talk with
2 them and see how we deal with that.

3 CHAIRMAN MATHIAS: And then just again to go
4 through the chart, as to when we should expect
5 things to be completed. The application by
6 Commonwealth Edison and Illinois Power, or rather
7 the notice of intent was filed by those two
8 companies with the Federal Energy Regulatory
9 Commission at the end of May, and you are suggesting
10 that there is a 45-day time period pursuant to the
11 memorandum of understanding.

12 And during that period of time there would be a
13 decision made as to whether or not you will allow
14 those companies to operate as a for profit group
15 within PJM; is that correct?

16 MR. HARRIS: Almost correct. The 45-day clock
17 will start as soon as, I guess, the MOU is filed and
18 they say we are ready to go, that will start the
19 45-day clock.

20 CHAIRMAN MATHIAS: Excuse me, but is it filed
21 with you?

22 MR. HARRIS: When it is filed with FERC.

1 CHAIRMAN MATHIAS: And when do you anticipate
2 that will be?

3 MR. HARRIS: Any day I would hope.

4 CHAIRMAN MATHIAS: Within the next 10 days
5 should we just assume, this will be within the next
6 10 days?

7 MR. HARRIS: I would assume it would be. I
8 think FERC said at their next meeting they would
9 like to hear where the companies were. So I would
10 assume there would be some decisions made on filing
11 it.

12 With a 45-day clock, one of the things that
13 will be worked out is precisely the role that they
14 want to have for the national grid. And it's
15 whatever they determine we will accommodate, it's
16 their choice and their decision of how they want to
17 manage their transmission system. If they want to
18 do it themselves they can do that under market, if
19 they want to transfer that's fine we will
20 accommodate whatever they want. But the details
21 need to be worked out and the important thing on
22 that is the development plan.

1 Then the plan will be filed, we will see the
2 plans, the plan says who does what, when, where, the
3 specific date when each company is going to come
4 into the market and phase in, and all those
5 particular details.

6 CHAIRMAN MATHIAS: And will that development
7 plan be internal within PJM or will that be filed
8 with the Federal Energy Regulatory Commission?

9 MR. HARRIS: It will be internal amongst us, but
10 it will file the elements of development plan
11 because that gets involve in the money, how the
12 money flows and there is no problem with briefing
13 you on and keeping you informed as that process goes
14 in order. We found that very helpful when we did
15 this thing with Allegheny.

16 CHAIRMAN MATHIAS: And then you are anticipating
17 that the development plan would be completed by the
18 October projected approval of the Federal Energy
19 Regulatory Commission?

20 MR. GLAZER: It would have to be completed
21 within 45 days of the day we start.

22 CHAIRMAN MATHIAS: Within 45 days of?

1 MR. GLAZER: The time we start negotiations.
2 45-day negotiation period to work out the plan, and
3 the plan gets approve, it's executed by the parties,
4 and then we will file that and that's the
5 development plan, the specifics of how all of this
6 is going to be put together.

7 CHAIRMAN MATHIAS: And the development plan must
8 be complete and agreed by by end of the 45 days?

9 MR. HARRIS: End of 45 days.

10 CHAIRMAN MATHIAS: 90 days from a date that is
11 short from now would have the process completed and
12 FERC would be in a position to either approve or
13 disapprove the proposal?

14 MR. HARRIS: I'm not exactly sure how that
15 timing would work out in there, but a filing would
16 have to be made and then FERC would have to make
17 some decisions. If we asked them to work quickly on
18 it some things we may be able to get started on.

19 CHAIRMAN MATHIAS: And then by 2003 there would
20 be a workable and unified plan within PJM?

21 MR. HARRIS: That would be a market. Based upon
22 our analysis right now, we would probably have a

1 market that would begin with AEP, we think if we
2 started soon we could have AEP up and running before
3 the summer, and then with the months following that
4 we would be integrating the other companies in a
5 reasoned way, and we would avoid the summer period
6 for some and pick them up in September. By the end
7 of '03 we would pick up the other companies.

8 In the meantime, for Commissioner Harvill's
9 benefit, I do want to say these issues are important
10 on how you coordinate. That's part of it is
11 understanding so you coordinate well with the
12 systems around you and those protocols work out.

13 CHAIRMAN MATHIAS: But the joint and common plan
14 between MISO and PJM would be sometime in 2005?

15 MR. HARRIS: The end of 2005. That's a whole
16 different model using information in a way to do the
17 thing differently. But this will be migrating into
18 that and it will fit right into that model.

19 MR. GLAZER: I would like to make one
20 clarification, during this 45-day period we need to
21 be working with MISO. I don't want to make it sound
22 like these are serial things, they all happen. Some

1 of the squishiness that you are hearing on this 45
2 days and the date issue, here is the conundrum, and
3 it's actually a point that Commission Kretschmer
4 raised. There is an MOU that is about to filed,
5 FERC yesterday and, again, I'm not being critical
6 at, all but FERC yesterday this this public meeting
7 said they want to hear from the companies in two
8 weeks. I don't know if the company -- I have not
9 talked -- I don't know if the companies are going to
10 wait to see what FERC says two weeks from now, in
11 which case we are waiting for the 45-day clock to
12 begin, or not.

13 Interesting, there is an intervening event
14 between now and the next two weeks, and that is the
15 state commission call with the FERC, which I believe
16 is scheduled for the Monday of the Mac meeting. So
17 the next word on this will be between you and the
18 FERC before the companies and FERC. So if you say,
19 you know, hey, I don't know where this is all going
20 but I want to see more progress, that's one message
21 to FERC. If your message is, I don't even want to
22 see an MOU, I don't want them even talking to PJM or

1 anything to happen, we don't even start that
2 detailed plan, that's another message to FERC.

3 But I'm not sure that is going to move things
4 faster, I'm not sure we are just not going to be
5 blowing in the wind in the hallways of Washington
6 DC. This is the conundrum now as a result of these
7 various actions that have happened. So whatever
8 your message is, I respect whatever it is. As
9 Commissioner Kretschmer raised, you have the next
10 word on this before the meeting and that is the next
11 day conference call. I'm not saying you buy this
12 whole package today, I'm not saying that do you want
13 to see further development on it and have you
14 involve us in that process and MISO, which is our
15 intent or do we wait and try to solve this all on a
16 regulatory basis in the FERC.

17 I think that's the issue that is facing
18 everybody right now.

19 COMMISSIONER HARVILL: There are no more
20 questions? I would like to thank you both for
21 coming in today and answering our questions. And
22 hearing no more questions we are adjourned.

1 (Whereupon those were all
2 the proceedings had in the
3 above-entitled matter.)

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